

Factors Considered in Setting i^*

The factors usually considered in the determination of the i^* to be used during any period of time include:

1. Availability of funds for investment and their sources—equity or borrowing.
2. Competing investment opportunities.
3. Differences in the risk involved in the different competing investment opportunities.
4. Differences in the time required for recovery of the investment with the desired rate of return—short-lived versus long-lived investments.
5. The “going price of money” as represented by the interest rates paid or charged on such investments as FDIC-insured savings accounts, the “prime rate” used by large banks, and the government short- and long-term notes and bonds.
6. Analysis before or after income taxes.